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Submitted by Email to info@rggi.org

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: Comments on October 11, 2011 Stakeholder Meeting and 2012 Review

Dear RGGI Inc.,

The RGGI Working Group is made up of major electricity power providers and natural gas and electric utilities with operations in the RGGI region. Members of the RGGI Working Group have been active in state, regional, and federal greenhouse gas (GHG) policy development for a number of years and are committed to working with the RGGI States on the 2012 program review.

We appreciate that the RGGI states hosted the stakeholder meeting on October 11, 2011 on electricity market and imports and leakage issues. We were encouraged to see that representatives from the three independent system operators participated in the meeting. We encourage the RGGI states to continue to engage the ISOs during the 2012 review specifically regarding the IPM modeling assumptions and results. Furthermore, the RGGI states should directly engage the ISOs during discussions regarding any CO_2 emission cap adjustments and the evaluation of imported electricity consumed in the RGGI region.

Based on the leakage analysis from NYISO as well as the imports and leakage analysis conducted by RGGI, the low RGGI allowance prices have not resulted in an increase in electricity imports or increase in CO_2 emissions outside the RGGI region. While this result was largely expected, if the RGGI states make fundamental changes to the RGGI program, allowance prices could rise significantly which would renew the environmental integrity and competitive concerns over the fact that imported electricity is not required to account for CO_2 emissions similar to RGGI region generators. However, until RGGI allowance prices rise, and RGGI monitoring shows that emissions leakage actually is occurring, we recommend that no changes be made to the RGGI program to address leakage. The following is a review of the options discussed during the October 11th meeting.

Addressing Electricity Imports into the RGGI Region

The primary option discussed at the RGGI meeting was the “first jurisdictional deliverer” approach developed by California under its AB32 cap and trade program. Under the FJD approach, the compliance obligation falls on in-state generators and electricity importers. While we generally agree that this approach is appropriate for California, this approach may be not politically or technically feasible for RGGI given the different geographic, electricity market and program design issues. Furthermore, if interest in this approach is related to the aspiration of linking with California’s cap and trade program in the future, alignment on this particular design element is not necessary to realize that objective. Instead, the RGGI states should consider the competitive and environmental integrity issues associated with electricity imports and analyze other ways to mitigate those concerns.

In developing their program, California assessed the total CO_2 emissions associated with electricity delivered and consumed in the state. For California, emissions from imports are approximately equal to emissions from in-state generation, despite the fact that imports account for only about 20-25% of the state's load. This discrepancy is the result of imports from coal-heavy surrounding states. Additionally, many California utilities hold ownership stakes or have power purchase agreements with coal-fired power plants in neighboring states.

In contrast, RGGI focused on a traditional in-state generator based cap and trade program largely modeled after the NOx Budget Program. The RGGI imports and leakage discussion was one of whether RGGI states could determine causation if electricity imports rose above some pre-RGGI level rather than one of accounting for all CO_2 emissions associated with electricity consumed in the RGGI region. The RGGI states decided not to directly regulate CO_2 emissions associated with imported electricity but instead to monitor the issue. We recommend that the RGGI states continue to monitor the imports and leakage issue and quantify the total CO_2 emissions associated with electricity consumed in the region on an annual basis in order to track trends over time. In addition, if New Jersey exits the RGGI program at the end of this year, as expected, the RGGI states should adjust the existing imports and leakage monitoring approach to account for that change.

The main advantage to addressing electricity imports under the RGGI CO_2 cap and trade program is a full accounting of emissions associated with electricity consumed in the RGGI region. This improves the environmental integrity of the program and extends the reach of the program to generators outside the RGGI states. Secondly, addressing electricity imports decreases the competitive disadvantage that RGGI affected generators encounter in the electricity markets where the added cost of RGGI is currently incurred by some but not all participants in the electricity markets RGGI crosses.

The main disadvantage to addressing imports is a likely increase in electricity prices for RGGI consumers. There are obvious challenges to expanding the RGGI compliance obligation to other parties in addition to in-region generators. For example, it is likely that any policy would have to be approved by state legislatures and/or state utility commissions. Given the concerns over the economy and RGGI regional political dynamics, this could prove to be a difficult challenge to overcome in the near term.

Thank you for your consideration of these comments. We look forward to continued participation in the RGGI 2012 program review process. If you have any questions on these comments please contact me directly at 978-405-1269.

Sincerely,

Brian Jones
MJB&A
on behalf of:

Calpine Corporation • National Grid • New York Power Authority
Northeast Utilities • NRG Energy, Inc. • Public Service Enterprise Group